Lecture #11  
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# Kucik and Reinhardt reading

## Dumping problem and anti-dumping rules

## Dumping: selling goods in foreign country for lower than in country of production

## Anti-dumping: reciprocal response as a way to focus retaliation without undermining cooperation and leading to reversion to status quo

## Good argument about the relationship between primary rules and response system and how it influences institutional design. Anti-dumping rules are “flexibility” mechanism by which you can violate rules regarding tariffs against a specific country so long as that country violated them first against you.

### Membership – more countries agree to join

### Primary rules – countries that join agree to more stringent primary rules (lower tariffs more)

### Effectiveness – countries that join are more likely, in fact, to lower tariffs

### Explanation of endogeneity

# Hypotheses linking Problem Structure to Institutional Design

## Hypotheses regarding problem structure and its effect on institutional design

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| --- | --- | --- |
| PROBLEM STRUCTURE (Independent Variables) |  | INSTITUTIONAL DESIGN (Dependent Variables) |
| Conflict?  If both/all relevant actors prefer the outcomes of conflict more than any viable option for its resolution (Deadlock) | then it is likely that states will create an institution that | Institutional Type  Will NOT form an institution, despite repeated efforts |
| Capacities 1  If the CAPACITY to engage in BAD behavior depends on other actors | then it is likely that states will create an institution that | Institutional Type,  Membership and Primary Rule System  REGULATORY institution which  LIMITS membership to states already capable of bad behavior AND  COMMON obligations to *ban* behaviors that would allow others to engage in bad behavior |
| Capacities 2  If some actors lack the CAPACITY to engage in GOOD behavior  (Positive externalities plagued by incapacity) | then it is likely that states will create an institution that | Institutional Type,  Membership and Primary Rule System and Response System  Programmatic institution which  EXPANDS membership to include donors and recipients  AND  Has DIFFERENTIATED obligations, with donors and recipients being required to do different things  AND  RESPONSE will involve capacity enhancements, not rewards or sanctions |
| Incentives 1  Coordination problem  Up/Downstream problem  Collaboration problem | then it is likely that states will create an institution that | Institutional Type,  Primary Rule System and  Response System  Coordination: Regulatory institution with COMMON obligations with no significant response system  Up/Downstream: Regulatory institution with DIFFERENTIATED obligations with response system based on linkage to other issues  Collaboration: Regulatory institution with COMMON obligations with response system based on retaliation or “reversion to status quo” |
| Incentives 2  If the INCENTIVES that states have to cheat on institutional rules are STRONG | then it is likely that states will create an institution that | Information System and Response System  Has clearly specified INSPECTION rules  AND  Has clearly specified RESPONSE rules  -- Inspection and response LIKELY for collaboration and upstream/downstream but UNlikely for coordination |
| Information and Knowledge  If actors lack INFORMATION about consequences of good or bad behavior | then it is likely that states will create an institution that | Institutional Type, Information System and Response System  Programmatic OR procedural institution with weak or non-existent information systems and response systems  NOTE: some problems can reflect multiple problems (e.g., some collaboration problems also have information problems) |
| Norms  If the problem involves efforts by some to instill NORMS in others | then it is likely that states will create an institution that | Institutional Type and Response System  Generative institution which  Does not rely on rewards, and relies on SANCTIONS only if a strong *pre-institutional* norm against the behavior exists |
| Violation Tolerance  If states are very concerned about what happens if other states cheat | then it is likely that states will create an institution that | Response System and Information System  Has STRONG and SPECIFIC INSPECTION procedures  Has STRONG and SPECIFIC response system OR allows states to leave institution easily |
| Inherent Transparency  If EASY for actors to get INFORMATION about other actors’ behavior | then it is likely that states will create an institution that | Information System  Has WEAK or non-existent INSPECTION procedures |
| Response Incentives  If actors have WEAK incentives to respond if a violation occurs | then it is likely that states will create an institution that | Information System and Response System  Has WEAK or non-existent INSPECTION procedures  AND  Weak or non-existent RESPONSE procedures |

# International trade

|  |  |  |
| --- | --- | --- |
|  | **GATT/ WTO** | **European Union** |
| **Q1: Conflict/deadlock** | Cooperation possible (not deadlock) | Cooperation possible (not deadlock) |
| **Q2: Number of actors** | Many: membership by any state | Few: membership limited to region |
| **Q3: Capacity** | Equal capacities so common obligations | Equal capacities so common obligations |
| **Q4: Incentives** | Collaboration so regulatory institution | Collaboration so regulatory institution |
| **Q5: Information** | Problem understood so no research arm | Problem understood so no research arm |
| **Q6: Values** | All states agree on free trade as good | All states agree on free trade as good |
| **Q7: Inherent transparency** | High for tariffs so weak inspection | High for tariffs so weak inspection |
| **Q8: Response incentives** | Strong incentives and reciprocity works | Strong incentives and reciprocity works |

# Global free trade and WTO

## Free trade obstacles

### Consumers don’t benefit enough to mobilize

### Export sector may be weaker than import-competing sector

### ONGOING opposition from import-competing sector

### Costs of free trade are NOW and CLEAR, benefits of free trade are FUTURE and UNCERTAIN

### Transition costs are not small

## If protectionists win, then retaliation by others creates trade war

## Key features: collaboration problem, no incapacity, inherent transparency, violation tolerant, strong response incentives

## Some things we can explain

### Interests 🡪 success on manufactured but not agriculture

### Incentives 🡪 strong incentives to cheat

### Transparency 🡪 no need for inspections to catch tariff violations, so easier to get agreement but subsidies challenging

### Response incentives: desire to retaliate while maintaining free trade 🡪 Dispute Settlement Panels

# Free trade zones and the European Union

## The problem of fostering free trade regionally

### Common market: Equalize and lower tariffs within

### Customs union: Equalize tariffs without

## Slightly different problems from WTO because need a customs union relative to non-EU states

## European Union: Current Problems

### Brexit presents standard problem of free trade

#### UK wants low tariffs for their EXPORTS to others

#### UK wants high tariffs ***on IMPORTS from others***

#### EU says, “Okay, but why should we do that?”

#### Where should the border be? Ireland/Northern Ireland problem